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15 January 1980

# China Report

ECONOMIC AFFAIRS

(FOUO 1/80)



FOREIGN BROADCAST INFORMATION SERVICE

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CONTENTS	PAGE
ECONOMIC PLANNING	
'NINGXIA' Paper Urges Efforts To Fulfill Year's Plans (Editorial; NINGXIA RIBAO, 2 Nov 79) .....	1
Briefs	
Munitions Plants' Conversion	4
FOREIGN TRADE	
Recent Japan-China Trade Explored (Hiroji Hirai; BUSINESS JAPAN, Nov 79) .....	5
Sanyo Begins Radio Manufacturing in Shanghai (MAINICHI DAILY NEWS, 15 Jul 79) .....	9

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ECONOMIC PLANNING

'NINGXIA' PAPER URGES EFFORTS TO FULFILL YEAR'S PLANS

HK130257 Yinchuan NINGXIA RIBAO in Chinese 2 Nov 79 p 1 HK

[Editorial: "Go All Out and Speed Up Efforts to Fulfill the Year's Plans!"]

[Excerpts] What is the current state of plan fulfillment in Ningxia region? Generally speaking the situation is excellent. Production growth was rather slow in the first half of the year, but the situation has become better and better since the start of the third quarter, and in particular the total value of industrial production in September set a new monthly record. By the end of September the region had fulfilled over 70 percent of the year's quotas for value of output and for profits, and the year's output plans for a few products had also been fulfilled. However there are still many problems amid this excellent situation. Development is unbalanced between different areas and departments, and in particular plan fulfillment is not good enough in light industry, for which the central authorities have repeatedly stressed that special measures must be adopted. Hence, we must devote great energy and effort to livening up economic work, doing a good job in production, and completely fulfilling the year's plans.

In what way should we devote this energy and effort?

First, we must emancipate our minds from the spiritual fetters of the ultraleftist line of Lin Biao and the "gang of four." When our minds are emancipated, we can devise methods, devote energy and effort, truly implement the party's line, principles and policies and speed up production development. However, there are still many people who have not truly solved this problem. They fear that shifting the work focus will mean losing the "key link;" they are afraid that by implementing the policy of from each according to his ability, to each according to his work they will be making the mistake of "material incentive;" they are afraid that expanding the self-management rights of enterprises will mean "sabotaging centralized and unified leadership" and committing "rightist"

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errors; they are afraid that by destroying the "theory of blood relationship" and implementing the policies on cadres and intellectuals they will be "violating the class line," and so on and so forth. It is absolutely essential that these problems be solved here and now. In connection with reality, we must vigorously criticize the ultraleftist line and emancipate our mind. We should stimulate production development through eradicating the remnant poison of the ultraleftist line. Judging by the situation on the industry and communications front in Ningxia, one problem urgently awaiting solution is to correct our understanding of the principle of "readjustment, restructuring, rectification and improvement," and to overcome fear of difficulties. Some comrades misinterpret readjustment as "abandoning projects" and "retreating," hence they are unable to summon up much energy and take a passive attitude toward the temporary difficulties which crop up in production in the course of readjustment. This view and attitude are wrong. Since industrial production is currently in the stage of readjustment, it is a fact that quite a large number of enterprises in our region are working below capacity. However, it is also true that many units among these enterprises have expanded the openings for production in accordance with the needs of society and their own possibilities, thus changing from "waiting for rice to fill the pot" to "looking for rice to fill the pot." These units have fulfilled their plans quite well.

We must completely smash the spiritual fetters of "taking the class struggle as the key link," and truly concentrate our energy on economic work. We must change the phenomenon of regarding economic work and political work as "two different layers of skin," and implement political work in economic work. We must change the situation of generalized leadership over economic work, plunge into production, grasp the work in a deep and painstaking way and produce good results.

Viewing the region as a whole, light industry is a weak link. We must be resolved to straighten out those few enterprises which are holding us back, promote light industry production and strive to increase output of products suitable for the markets. While grasping typical cases, we must first grasp the leadership groups, and grasp both their ideological and organizational building. We must commend and put in important positions outstanding cadres who devote themselves to the four modernizations, whose minds are emancipated and whose work is successful. We must adopt the necessary organizational measures with regard to those very few cadres who refuse to carry out the party's line and pursue factionalism and whose sense of the revolutionary cause and sense of political responsibility have gravely deteriorated.

Now that we are approaching the end of the year, we must be particularly careful to guard against tendencies to one-sidedly chase after output value and quantity and to neglect quality. We must persistently give prominence to improving product quality and increasing variety and do

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still better in promoting product quality, packaging, and freight handling and transport methods. We must do everything possible to cut fuel and power consumption, launch activities to save energy, and create new experiences and gain new successes in saving coal, fuel, electricity, water and gas and making full use of energy sources.

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ECONOMIC PLANNING

BRIEFS

MUNITIONS PLANTS' CONVERSION--Beijing, 23 Oct--A reliable source in Beijing disclosed on 23 October that China, striving for agricultural development under its modernization programs, had decided to convert some of the existing munitions factories into farm implements plants to speed up the mechanization of agriculture. This move is viewed as part of the current reevaluation work for various existing plants in China. Chinese officials see redevelopment of existing plants with advanced technology introduced from foreign countries as being less expensive than building new plants. According to the same source, what factories will be affected by the conversion decision has not yet been made clear. In this connection, China attaches importance to Japan's experience in converting its munitions industry into nonmunitions industries. It has a strong desire to invite Japanese specialists for inspection and appropriate advice. It is said that the Chinese authorities concerned are already sounding out their Japanese counterparts on the possibility of sending specialists to China. [Excerpt] [OW260941 Tokyo ASAHI SHIMBUN in Japanese 24 Oct 79 Morning Edition p 7 OW]

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4

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FOREIGN TRADE

RECENT JAPAN-CHINA TRADE EXPLORED

Tokyo BUSINESS JAPAN in English Nov 79 pp 59, 61-63

[Article by Hiroji Hirai, director and editor, Association for the Promotion of International Trade]

[Text]

JAPAN and China briskly conducted business negotiations during the past year or so over Japanese export of industrial plants, development of natural resources in China, and co-operation in major renovation of old Chinese factories and plants. Japan-China trade achieved an unprecedented expansion in this period and as an initial result of these negotiations, industrial plant export contracts worth \$3,800 million were concluded during the 12-month period ended January 31, 1979.

Reflecting this expansionary trend, Japan-China trade in 1978 reached an all-time high of more than \$5,000 million both ways, an increase of 46% over the preceding year.

Economic and trade missions and groups exchanged between the two countries increased dramatically. Japan dispatched 150 such groups to China while the Chinese sent 130 groups to Japan. In addition delegations headed by Chinese cabinet ministers and deputy cabinet ministers increased sharply. Thus, an exchange of visits between the top leaders of both countries began in all fields.

In the meantime, however, economic adjustment in China was such that the placement of many orders for the contracted industrial plants was withheld temporarily. Negotiations

over giant industrial plants came to a standstill after June. So despite its expansionary trend, Japan-China trade in the past year encountered big changes.

Trade Value, Change in Trade Items

Japanese exports to China in 1978 amounted to \$3,048 million, up 57% from the preceding year, while imports rose by 31% to \$2,030 million. Both export and import figures hit the highest mark in the history of Japan-China trade after World War II.

Japanese exports of steel, machinery and equipment to China increased, but exports of man-made textile goods and chemical industrial products either decreased or marked time. The volume of steel exported to China reached 5,636,000 tons, for the first time ranking China first among the importers of Japanese steel, excluding the United States. Steel alone accounted for 54% of Japan's total exports to China in 1978. Machinery and equipment exports to China last year became 2.3 times larger than that in 1977, accounting for 21% of Japan's total exports to China.

Machinery and equipment became the second major export item, next to steel. Of the machinery and equipment exports to China, automobiles (mostly trucks) comprised one-third. As far as the 1978 statistics were concerned,

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## Japan-China Trade in Calendar Years (Customs-Cleared Basis)

(Unit: U.S.\$1,000)

Year	Japanese Exports		Japanese Imports		Export-Import Total	
	Value	Compared with Year Before (%)	Value	Compared with Year Before (%)	Value	Compared with Year Before (%)
1950	19,633		39,328		58,961	
1951	5,828	29.7	21,606	54.9	27,434	46.5
1952	599	10.3	14,903	69.0	15,502	56.5
1953	4,539	757.8	29,700	199.3	34,239	220.9
1954	19,097	420.7	40,770	137.3	59,867	174.9
1955	28,547	149.5	80,678	198.1	109,325	182.6
1956	67,339	235.9	83,447	103.6	150,986	138.1
1957	60,485	89.8	80,483	96.2	140,968	93.4
1958	50,600	83.7	54,427	67.6	105,027	74.5
1959	3,648	7.2	18,917	34.8	22,565	21.5
1960	2,726	74.7	20,729	109.6	23,455	103.9
1961	16,639	610.4	30,895	149.0	47,534	142.1
1962	38,460	231.1	46,020	149.0	84,480	177.7
1963	62,417	162.3	74,599	162.1	137,016	162.2
1964	152,739	244.7	157,750	211.5	310,489	226.2
1965	245,036	160.4	224,705	142.4	469,741	151.3
1966	315,150	128.6	306,237	136.3	621,387	132.3
1967	288,294	91.5	269,439	88.0	557,733	89.8
1968	325,439	112.9	224,185	83.2	549,624	98.5
1969	390,803	120.1	234,540	104.6	625,343	113.8
1970	568,878	145.6	253,818	108.2	822,696	131.6
1971	578,188	101.6	323,172	127.3	901,360	109.5
1972	608,921	105.3	491,116	152.0	1,100,036	122.0
1973	1,039,494	170.7	974,010	198.3	2,013,504	183.1
1974	1,984,475	190.9	1,304,768	134.0	3,289,243	163.4
1975	2,258,577	113.8	1,531,076	117.3	3,789,653	115.2
1976	1,662,568	73.6	1,370,915	89.5	3,034,483	80.1
1977	1,938,643	116.6	1,547,344	112.9	3,485,987	114.9
1978	3,050,153	157.3	2,032,641	131.4	5,082,794	145.8

there was not much plant machinery and equipment exported to China in 1978, because shipments of plant component machinery and equipment were concentrated after the start of 1979.

Crude oil is Japan's major import item, and it accounted for 37% of Japan's total imports from China in 1978. Volume of crude oil imports in 1978 was 8,724,000 kiloliters, or an increase of 14% over the preceding year. Coal imports crawled and did not amount to much. Foodstuffs, raw silk, cotton fabrics and clothing increased but other items either marked time or decreased.

Statistics for the January-June period of 1979 show that Japanese exports to China increased 66% over the corresponding period of 1978, while imports, too, rose by 42%. If this expansionary trend of both exports and imports continues in the

latter half of 1979, Japan-China trade in the whole of 1979 will exceed the \$7,000 million mark. Actually, however, steel and chemical fertilizer exports are expected to dwindle considerably this year as compared with last year. As a result, Japan's exports in 1979 are expected to be around \$4,000 million and imports around \$2,700 million. Japan-China trade in 1979, therefore, will be around \$6,700 million, or an increase of about 34% over 1978.

## Huge Plant Export Contracts

Since a protocol agreement on the construction of the Paoshan Iron Works in Shanghai was signed in May 1978, negotiations over giant industrial plants have been held between Japan and China. It is presumed that these negotiations involved a total well over \$10,000 million. The negotiations

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were carried out by China not only with Japan but also with the United States and West European countries. Out of these negotiations, contracts worth approximately \$1,100 million were concluded by November 1978. During the two-month period of December 1978 and January 1979, contracts worth as much as \$2,700 million were concluded. It was the first time in her history of foreign trade that Japan had ever concluded on a private basis within a single year industrial plant export contracts worth as much as \$3,800 million.

Of these plant export contracts, those concluded in December 1978 and January 1979 involving approximately \$2,700 million were pigeonholed temporarily because China began to adjust her economic construction program. These contracts, however, were revived and fulfilled in June because economic adjustment progressed smoothly and also because financial cooperation agreements were signed between the two countries. Thus, all the industrial plant export contracts concluded until then were put into effect.

The payment terms of the Paoshan Iron Works contract worth approximately \$1,100 million were changed to a deferred payment formula from the original cash settlement formula. All other contracts took effect according to their original terms.

A great majority of the industrial plant export contracts are for chemical industrial plants worth about \$1,700 million, including ethylene plants, ammonium manufacturing plants and synthetic textile plants.

Chemical industrial plants are followed by steel manufacturing plants which are to be installed in the Paoshan Iron Works. These plants valued at \$1,100 million are only half the plant value originally agreed upon. Contracts for the remaining half, therefore, will be negotiated in the future. Chemical industrial and steel plants alone take up almost 70% of all industrial plant export contracts so far concluded.

Other plants include a thermal power plant, a color TV manufacturing plant, a copper smelter, an aluminum refinery, a synthetic leather manufacturing plant and coal mining equipment.

After these contracts took effect (in June), the number of business talks over big industrial plants diminished. This was due primarily to China's policy to adjust her domestic economic development program. As regards future trends, there will be no major plant export talks for the next three years. China is expected to concentrate on the purchase of technical know-how and introduction of plant sections. For the time being, China will most probably place emphasis on repair and improvement of existing plants and facilities.

#### Newly Concluded Financial Agreements

Japan-China private financial cooperation agreements, which had been under negotiation for some time, were signed in May 1979.

One of them was a "memorandum on basic matters concerning credit to finance oil and coal development" signed between the Export-Import Bank of Japan and the Bank of China. This memorandum concerns untied loans designed to promote China's oil and coal exports to Japan through development of oil and coal resources in China. The amount of credit to be extended is ¥420,000 million (equivalent to \$2,000 million), and it will carry an interest rate of 6.25% per annum, and the term of loan will be 15 years at the longest. As soon as individual projects are finalized, separate credit agreements will be concluded. The other is an agreement on basic terms concerning financial cooperation on a private basis, signed between a consortium of Japanese commercial banks and the Bank of China. This agreement provides for loans to finance Japanese exports to China under the "Japan-China long-term private trade agreement" signed in February last year. This agreement provides both long-term and short-term loans.

Short-term trade loans will be furnished by 31 Japanese commercial banks. Based on the dollar, the loans will total \$6,000 million. The term is six months, and they will carry an interest rate of 0.25% per annum on top of the interest rate on the Euro currency market.

Long-term commercial loans will be

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furnished by 22 Japanese commercial banks to settle part of the short-term trade accounts referred to above. Long term loans will total \$2,000 million and their term will be four years and six months. They will carry an interest rate of 0.5% per annum on top of the interest rate on the six-month Euro currency market.

The cooperation in financing to be provided in the manner explained above is the first of its kind in the postwar history of Japan-China trade. Thanks to the signing of these two agreements, the pigeonholed plant export contracts mentioned above were honored by June 1979.

Compared with financial terms offered to China by Britain, France and other countries, the total amount of loans and credit, and terms and conditions set forth by Japan are not necessarily favorable.

Active Exchange of Trade and Economic Missions

The number of Chinese trade and economic missions and groups which visited Japan increased sharply from the latter half of 1978. More than half of the 130 Chinese groups which visited Japan came in the latter half of 1978.

Moreover, the number of Chinese vice premiers, cabinet ministers and deputy ministers who came to Japan increased. By the end of the first half of this year, most of the cabinet ministers and vice ministers concerned with economic affairs had come to Japan. The visits of such ranking officials to Japan has played an important role in the expansion of trade between Japan and China.

At the same time, visits to Japan of local Chinese groups increased.

Economic missions came to Japan not only from Beijing and Shanghai but also from Heilongjiang, Jilin, Liaoning, Shandong, Jiangsu, Fujian

and Guangdong provinces. Talks are already under way with leaders of these regions to promote trade and extend economic cooperation.

Since China itself is now trying to decentralize its power so that each province may carry out trade and promote economic exchange with foreign countries on its own, exchanges with local province leaders will become brisk in the future.

Sister city ties have already been knotted between 13 Japanese cities and as many Chinese cities which is one of the new moves in Sino-Japanese relations. On the basis of friendship, Japanese and Chinese sister cities are planning to promote each other's exhibitions. In September 1979, Kobe City held an exhibition in Tianjin and in October Yokohama City held one in Shanghai.

Conclusion

Economic cooperation between the governments of Japan and China has finally got moving. On the occasion of Prime Minister Ohira's visit to China scheduled for December this year, an agreement will be reached over government level economic cooperation using mainly the Overseas Economic Cooperation Fund. The total amount of economic aid Ohira will most likely offer is \$5,500 million to help finance eight projects. Agreement will be reached on this government level economic cooperation in one way or another.

The recent changes in Japan-China trade are mostly attributable to China's efforts to adjust her domestic economic buildup program. Now that China has made a lot of adjustments, many business negotiations have gotten under way particularly in the second half of this year in order to expand trade and economic cooperation between Japan and China to suit the Chinese economy after adjustment.

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FOREIGN TRADE

SANYO BEGINS RADIO MANUFACTURING IN SHANGHAI

Tokyo MAINICHI DAILY NEWS in English 15 Jul 79 p 5 OW

[Text] Kaoru Iue, president of Sanyo Electric Co., disclosed in Osaka Friday that his firm started on July 1 a consignment production of single-band radio receivers in Shanghai to become the first Japanese electric/electronic appliance manufacturer to make products in China since the war.

Iue, fresh from an 11-day tour of four major Chinese cities, said all parts, machinery and equipment necessary for the manufacturing were shipped from Sanyo's subsidiary in Hong Kong. All the radios being produced at the "101 plant" in Shanghai will be exported to developing nations in Asia and Africa, he added.

Iue also said that Sanyo received orders from China during his stay for 200,000 monochrome (12-inch) TV receivers and 300,000 radio/cassette recorders, all of them to be shipped to China by the end of this year.

He visited China for the first time in 33 years. He operated a battery manufacturing plant in Shanghai before the war,

Iue also revealed that he told officials of the Shanghai Revolutionary Committee that he is willing to provide as much as 100 percent of the capital to establish a plant in Shanghai to produce electric appliances. "If it would help China to earn her desired foreign currency," he said, "there is no need to debate about capital shares. I earnestly hope to build a plant that will eventually earn world fame. Japanese companies have to make all-out efforts to help develop the Chinese electronics industry."

Commenting on a plan earlier disclosed by Konosuke Matsushita, founder of the Matsushita Electric Industrial Co., for establishing a huge consortium of Japanese companies to set up a joint-venture firm with China Iue said the announcement of the plan seemed to be rather abrupt.

He implied that Matsushita had not laid the necessary groundwork among domestic firms concerned before revealing the plan.

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"If any firm opposes the plan, however," he predicted, "it will be excluded from the Chinese market."

"I do agree with the Matsushita plan in principle," he said. He stressed, however, that he favors dealings with China on a region-wise (centered on major cities) or product-wise basis.

Iue stated that Toshihiko Yamashita, president of Matsushita Electric Industrial Co., has proposed to meet with Iue on Monday.

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